Allianz Life Insurance Company of North America

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Ms. Pamela J. O'Connell
Bureau Chief
State of California
Department of Insurance
Market Conduct Division
Field Rating & Underwriting Bureau
300 Capitol Mall, 16th Floor
Sacramento, CA 95814

Re: **Allianz Life Insurance Company of North America's Response to the State of California Department of Insurance Public Report of Targeted Compliance Examination**

Dear Ms. O'Connell:

Allianz Life disagrees with the findings in the Public Report of Targeted Compliance Examination ("Report") recently issued by the California Department of Insurance ("Department"). Although we disagree with the findings, we nonetheless take the Report very seriously and will address the issues raised in the Report as we continue our ongoing efforts to improve our business. For example, Allianz Life has pledged in the published Report to revise some of its training, communications, policy statements and contracts to address the Department's concerns. In fact, in many instances, Allianz Life had already made or was in the process of making similar changes prior to receiving the Department's findings.

The Department's Report is flawed in several respects. First, the Report mischaracterizes the features and benefits of the products at issue. For example, it claims that Allianz policyholders must leave their premium untouched for five years to get full product value. That statement is simply inaccurate. Second, the Report's analysis is based upon a fundamental misunderstanding of longevity, longevity risk, and life expectancy estimates, which would have the effect of precluding seniors from insuring against the risk that they live beyond an estimated average life expectancy. Third, the Report would impose new limitations on contract terms, sales practices, and replacement activity that are not required by law and, in several instances, are directly contrary to standards or terms previously articulated or approved by the Department. For example, the Report criticizes contract language that the Department previously authorized when approving products for sale in California.

Some of the important facts that the Report discounts or ignores are that:

- The Company's deferred annuity products can provide seniors, even those as old as age 85, legitimate protection against their risk of living longer than the average age reflected in the life expectancy tables cited by the Department. These products also offer other valuable benefits, such as wealth transfer to a surviving spouse or other beneficiary, that are entirely suitable for seniors up to and including those who are 85 years old.
- The average age of the people who buy an Allianz Life annuity is 60 years. Approximately 70% of our policyholders are less than 65 years of age when they purchase our products.
- The Company's policy and procedures on replacement sales are consistent with the existing California replacement regulation; replacements are prohibited unless they are in the consumer's best interest and the consumer is fully informed of both the advantages and disadvantages of the replacement.
- The Company has also established a rigorous suitability program that is designed to ensure that there are reasonable grounds for believing that each sale is suitable for the consumer making the purchase, considering numerous factors, including the purchaser's age, investment objectives and time horizon, liquidity needs, income, net worth and source of funds.

Highlighted below are certain factual inaccuracies as well as items that Allianz Life sees as analytical flaws in the Report's findings. We also identify specific conflicts between those findings and current law or previously published guidance regarding issue age and longevity standards, replacements, suitability and heretofore acceptable contract terms. Allianz Life strives to fulfill or exceed its obligations under the rules and regulations in every state in which it does business, and believes it has done so in California. But neither Allianz Life nor any other company should be penalized retroactively for failing to comply with policies or requirements that are not enacted or adopted through proper regulatory or legislative procedure. Not only is the Report unfair and unjustified in this regard, but it also has the potential to set bad policy and precedent that actually would be harmful to California consumers.

I. The Report Errs in its Analysis of the Company's Products, Which Provide Valuable Features and Benefits to Appropriate Consumer Segments, Including Seniors

The Report is mistaken when it states that Allianz Life policyholders must "leave their premium untouched for a period of five years" in order to be able to get the full value from the MasterDex 10 and the 10% Bonus PowerDex Elite products. This is not true. In fact, policyholders can take free annual withdrawals from their policies beginning one year after purchase of both of these products.

For example, after the first anniversary date of the purchase of a MasterDex 10, policyholders can take a free withdrawal of up to 10% of their premium. Thereafter they can continue to withdraw 10% annually up to a total of 50% of their initial premium. In other words, a policyholder who puts $100,000 into a MasterDex 10 will have an annuitization value of $110,000 when the policy is issued, can withdraw $10,000 after her first anniversary date and another $10,000 in each of the following four years. After the policy's fifth anniversary date, the policyholder could have withdrawn a total of $50,000 and still have an annuitization value of $60,000, plus the interest that has been credited during the previous five years. That $60,000, plus accumulated interest, could be accessed in a variety of ways, including a life with a ten-year certain payout that ensures that the policyholder will receive income for as long as she lives, while also guaranteeing that this income will continue to be paid to beneficiaries if the policyholder dies within ten years.

Thus, the free withdrawal feature of our products offers policyholders access to a significant share of their money. As the example above shows, rather than being required to leave their premium "untouched" during the first five years, MasterDex 10 policyholders have the option of withdrawing up to one-half of their premium during that period.

While the Report is not mistaken when it states that most deferred annuities are surrendered rather than annuitized, this broad generalization is based on how owners of single tier annuities typically choose to access their funds. Allianz Life's experience with our two-tiered annuities is that over two-thirds of funds withdrawn by policyholders are taken out via annuitization, not surrender. The Report's mistake is in failing to recognize that the predominant payout choice for two-tier annuities is annuitization.

The Report acknowledges that sales to seniors, even those with an average life expectancy of only five to six years are appropriate if "neither the insured nor the beneficiaries are determined to need access to the funds for such extended periods of time [referring to the length of the surrender period]." The Report's analysis, however, mistakenly assumes that this will rarely be the case. In fact, Allianz Life and its agents can demonstrate that the individuals buying these annuities are buying them for the long term and do not need immediate access to the money that they are placing into the products. Our agents work with their clients to determine which insurance products or other financial instruments are appropriate to meet the client's financial objectives, including liquidity needs. In addition, our suitability program, which has been in effect in California since July of 2005, is designed to help ensure that our policyholders only buy products with payout options that match the need for access to their money. As explained in more detail below, we do this by asking policyholders very specific questions about when and how they intend to access the funds in the policy and comparing their answers to the product features prior to issuing the contract.

The Department is correct that the two tier annuities discussed in the report would not be suitable for a person with a need to preserve short term liquidity of the entire premium. What the Report ignores, however, is that people with short term liquidity needs are not the people who are actually purchasing these products. Many retirees, for example, want and need to diversify their assets as they age. For these retirees, this means not only moving more money to products that offer greater safety and less exposure to market risks, but also often setting aside a portion of their financial resources into longer term products that offer guarantees and longer term benefits. Many older policyholders do not intend to access any of the funds personally, but rather to leave a legacy for their beneficiaries. Annuities offer these kinds of benefits and can be very appropriate financial products for people with these objectives.

Moreover, the Report does not consider legitimate risk/reward tradeoffs in determining the appropriateness of any given transaction. In a time when both social security and private pension plans seem less certain and secure and life expectancy is longer, consumers are increasingly looking for annuity products that offer more safety and less volatility than traditional variable annuity products. Some are also looking for annuity products that offer the potential for higher interest than traditional fixed interest rate products if the market index performs well and are willing to accept the risk that they will receive lower interest than guaranteed by traditional fixed interest rate products if the index performs poorly. These consumers would be disadvantaged by the Report's proposed analysis and policy if they could not purchase these kinds of products, because they would be paying for the privilege of guarantees and short term liquidity which they neither need nor want.

II. The Report Seeks to Implement a New and Detrimental Standard Regarding the Longevity of Senior Citizens

In the Report, the Department asserts that the sale of an annuity to someone of advanced age who is "highly unlikely" to outlive the surrender penalty period, or "highly unlikely" to outlive the annuitization period is an unfair business practice. To our knowledge, this is a new standard, one which conflicts with the Department's prior position.

In an October 6, 2005 letter to life insurers, Commissioner Garamendi stated, "if annuitization *commences* beyond a senior's actuarial lifetime, it is unlikely that the benefit of the bargain will ever be realized." [emphasis added.] Commissioner Garamendi cited no statutory or regulatory authority to support his expectation, and ignored other legitimate uses for annuities such as wealth transfer. Nonetheless, since essentially all of Allianz Life's policyholders have the ability to commence annuitization within their actuarial lifetime, Allianz Life annuities do meet the expectation expressed by the Commissioner last year. Now, however, the Report attempts to impose a standard that requires the annuitization period to not only begin, but also be completed, within a policyholder's average life expectancy, a position that is articulated for the first time in this market conduct examination.

Furthermore, the Department approved the annuities at issue here with full knowledge of their maximum issue age and requirements to receive the full annuitization value. When Allianz Life filed these products with the Department, the Company included draft policy contracts and proposed maximum issue ages for each product. Each draft policy contract reflects proposed terms of the particular annuity product, including the deferral period and minimum annuitization period in order to receive the product's annuitization value. The Department reviewed and approved each of the products at issue in the Report, including the MasterDex 10 and the 10% Bonus PowerDex Elite. The MasterDex 10 and the 10% Bonus PowerDex Elite have a deferral period of five years, a minimum annuitization period of ten years (or the life of the annuitant), and a maximum issue age of 85. After receiving the Department's approval, Allianz Life began offering these products for sale in California to persons up to and including the age of 85. The Report now claims that these sales were improper, a position directly contrary to the Department's prior approval of such sales and the Commissioner's stated position on longevity.

The position articulated in the Report would appear to effectively preclude the sale of deferred annuities to older seniors in California, many of whom find these products to be very useful retirement planning vehicles. We believe that it would be detrimental to seniors to deny them the option of purchasing insurance products that can and do provide protection against their risk of living longer - sometimes much longer - than what a particular life expectancy table might otherwise predict (especially since the Report relies on a table that does not use annuity purchasers as its sample for measuring life expectancy). Much like young, healthy individuals have the right to purchase term life insurance to insure against the risk (however slight) of dying too soon, senior consumers should also have the right to purchase annuities, the only privately offered financial product that enables them to insure against the very real possibility that they will live beyond their actuarial life expectancy.

A. The Report Feeds Public Misperceptions About Longevity

The Report alleges that, based on average life expectancy statistics, senior policyholders are unlikely to receive the benefit of the funds that went into their annuities. In doing so, the Report implies that all seniors are best served by keeping all of their funds liquid and immediately accessible within their average life expectancy, regardless of their individual financial needs and objectives. Allianz Life strongly disagrees with this implication. The Department's position is not only mistaken, but has the potential to fuel public misperceptions relating to longevity at a time when retirees and people planning for retirement need more and better information about these topics. These topics include:

1. Half of the Population Will Live Beyond Their Average Life Expectancy – Some Far Beyond

In July of 2006 the Society of Actuaries (SOA) issued a report entitled "Longevity: The Underlying Driver of Retirement Risk." This report noted that "retirees and those near retirement are, at best, only vaguely aware of the implications of taking on not just investment risks but also the longevity component of their financial security." The report went on to emphasize the limitations of life expectancy averages in retirement planning: "In discussing longevity, it must be recognized that measures of life expectancy are based on large group averages. In the case of 'person life expectancy' for any one individual, length of life is a far more imponderable concept – its precise value will not be known until that person has died. This point is critical in that it reveals the weakness of relying on averages for planning purposes – a retiree has a 50% chance of outliving the table averages." We encourage the Department to review this report, which is available on the SOA website: www.soa.org/ccm/content/areas-of-practice/special-interest-sections/pension/research-thinking-ahead/post-retirement/.

A Wall Street Journal article published on September 18, 2005, entitled, "Your Longevity Is a Money Minefield," makes a similar point. Several financial planners were interviewed about the risks of relying on life expectancy projections in financial planning. Steven Rosen, an actuary and president of the American Society of Pension Professionals and Actuaries, cautioned that even with detailed life-expectancy calculators "these actuarial projections are averages based on large numbers of people. Any one individual can really get burned." Chris Raham, a senior actuarial adviser with Ernst & Young, pointed out that if you use a life-expectancy calculator, "no matter how reflective of your personal situation...half the time you're going to outlive that number." In light of this uncertainty, financial planners interviewed for this article emphasized the importance of being financially prepared to live years beyond one's average life expectancy. One of those interviewed for the article based her planning recommendations on the assumption that her clients would live to 95 and two others assumed 100. According to Bob Carlson, author of "The New Rules of Retirement: Strategies for a Secure Future", and another financial planner interviewed for this article, in order to have "close to a zero risk" of outliving your plan, "you have to set an age of 100 or beyond."

2. Public Misperceptions About Life Expectancy

Longevity risk, or the risk of living longer than expected, is one of the most important aspects of retirement planning. However, the general public does not have a good understanding of life expectancy and its impact on financial needs in retirement. A report published in September 2006 by the SOA ("The Impact of Retirement Risk on Women") found that approximately two thirds of retirees underestimate their average life expectancy. The report went on to state that "Often for retirement planning, individuals will focus on average life expectancy without considering the variability of life expectancy. The variability of life expectancy is important to consider because while a 65 year old woman can expect to live, on average, until her mid-80's, many will live into their 90's or even longer." This report is also available at the SOA website address that is listed above.

Another study, "Public Misperceptions about Retirement Income," published in 2005 by LIMRA International, Inc. and the Society of Actuaries, made a similar point: "Longevity risk is further exacerbated to the extent retirees underestimate their future lifespan. They may not realize that life expectancy is just an average and that about half of retirees will live beyond their life expectancy. There is some evidence that many people do indeed underestimate their life expectancy. Also, the notion that life expectancy constantly changes as one grows older is not well understood; instead, some people use life expectancy at birth as their planning target.... In addition, a common input for retirement planning software tools is life expectancy. For people at or near typical retirement ages, such an assumption would cut off approximately half of potential scenarios." This study is also available on the Society of Actuaries website.

Failure to adequately plan for and protect against this longevity risk can have serious financial implications. Most notably, an individual who underestimates how long he or she is likely to live may dissipate assets more quickly than is prudent. The individual may become a financial burden on family or the public when such a result could have been avoided with better planning.

3. The Report Disregards the Financial Planning Needs of Couples

The mortality basis used in the Report ignores the joint life expectancy of couples, focusing instead on only individual life expectancy statistics. Couples need financial plans for two, often including a younger wife with a life expectancy that is longer due to her age and gender. Couples need to think in terms of joint life expectancy, where the chances of at least one spouse outliving an individual's life expectancy are much higher. Indeed, according to the Society of Actuaries' 2000 Annuity Mortality Tables there is a 50% chance that at least one member of a 65 year old couple will live to at least 92 and a 25% chance that one of them will live to at least 97. For an 85 year old couple there is a 50% chance that one will live to be at least 96 and a 25% chance that one of them will live at least another 14.7 years, nearly to age 100. The table below outlines in more detail individual average life expectancy for males and females and joint expectancy for couples, based on the Society of Actuaries 2000 Annuity Tables.

Society of Actuaries 2000 Annuity Mortality Tables			
Life Expectancy (50% will live at least this many more years)			
Age	Male	Female	Joint
65	20.5	23.0	27.2
70	16.6	18.8	22.6
75	13.2	14.9	18.4
80	10.2	11.4	14.5
85	7.8	8.4	11.1
Life Expectancy (25% will live at least this many more years)			
	Male	Female	Joint
65	27.4	29.6	32.3
70	22.8	24.8	27.5
75	18.6	20.3	22.9
80	14.8	15.9	18.6
85	11.3	12.1	14.7

Concerns for the financial well-being of a surviving spouse can be the most important consideration for policyholders, even more important than ensuring their own financial welfare. Thus, for example, an 85 year old male who is seriously ill and has a short life expectancy may want to buy an annuity like the MasterDex 10 since if he dies within a short period of time, his wife will inherit the contract as if she had been the owner all along and she can either continue to accumulate the values or she can immediately annuitize and get the full benefit of the policy (including the bonus) through a stream of regular payments for a period of five or more years. The availability of these asset transfer alternatives serve many seniors well.

B. The Department's New Standard Is Unclear and Unworkable

The Department's apparent new standard regarding policyholder longevity is problematic on several fronts, including that the standard is largely subjective. The

Department provides no discernable measure by which companies could have known or can determine prospectively whether policyholders are of such an "advanced age" that they are "highly unlikely" to outlive the surrender penalty period or "unlikely to live long enough" to realize the full payout of all of the benefits of their annuities.

1. What Exactly Does "Highly Unlikely" Mean?

It is not clear what the Department means by "highly unlikely" nor does the Department explain how such a standard is relevant to a consumer's decision whether to buy products that help protect against what the consumer believes to be a valid and justifiable longevity risk. The Department provides no indication as to where to draw the dividing line beyond which a policyholder's survival becomes "highly unlikely." As explained above, it is not sound public policy to use the policyholder's average life expectancy because people are as likely to live beyond their average life expectancy as they are to die before it. Even a 25% or less chance of living beyond the surrender charge period creates a legitimate risk worthy of mitigation. Reasonable people buy other kinds of insurance, such as term life and homeowners insurance, to protect against risks that are much less likely than one in four.

2. Which Life Expectancy Data Should Be Used?

The Department's purported new standard also fails to address other important factors that affect longevity, such as health care access and utilization, race, income and family history. Indeed, many disparities exist in life expectancy data that cannot be explained even by these criteria. In the "Eight Americas" study recently conducted by the Centers for Disease Control and the National Institute on Aging, Dr. Christopher J. L. Murray of the Harvard School of Public Health and his colleagues noted that "[i]t has been recognized for a long time that the number of years that people in the United States can expect to live ('life expectancy') varies enormously." The disparities were so severe that the study concluded that there are effectively "eight Americas," each with its own life expectancy. The study showed that Asian Americans, for example, have a much higher average life expectancy than any other group. Any life expectancy standard established by the Department would necessarily be so imprecise that it would itself be unfair to those with longer life expectancies, unless the standard provided a mechanism by which these factors could be taken into account. A copy of this

study is available at the Public Library of Science website:
http://medicine.plosjournals.org/perlserv/?request=get-document&doi=10.1371/journal.pmed.0030260#toclink1.

The standard articulated in the Report is simply unworkable when there are so many possible permutations not only in life expectancy but also in individual financial circumstances and objectives. Moreover, enforcement of this standard would deny California seniors the opportunity to select and purchase products that can be perfectly appropriate for their individual financial needs and objectives.

III. Allianz Life Complies with the California's Replacement Regulations

Allianz Life has fully complied with its obligations under the replacement regulations of California Insurance Code section 10509. Allianz Life's policy on replacement sales is that a replacement must be in the consumer's best interest, appropriate with respect to the individual needs and circumstances of the policyholder and transacted only after the policyholder is fully informed of both the advantages and disadvantages of the replacement. Allianz Life provides training to its agents and requires that policyholders receive full disclosures regarding the features (including limitations) of the products and that policyholders acknowledge receipt of written disclosures regarding the appropriateness of the product for their circumstances.

Specifically, Allianz Life has informed its field representatives of California's statutory requirements regarding replacements. All of our agents have received state mandated and approved training on unnecessary replacements. With each replacement sale, we require agents to submit a list of all the applicant's existing annuities to be replaced and a copy of the replacement notice provided to the applicant. We send written notice to existing insurers informing them of the replacement. We maintain evidence of the notice provided by the agent to the applicant and of the policy summary provided to the applicant. We provide notice to applicants of their right to a refund of all premiums paid within 30 days from the date of delivery of the policy. In short, Allianz Life meets all of the requirements of California's replacement regulation currently in force and applicable for the time period covered by the Report.

Citing California Insurance Code section 10509, the Report alleges that Allianz Life "does not have a procedure in place to determine if its replacement annuity sales are considered unnecessary", and insinuates that Section 10509 requires Allianz Life to monitor each individual sale where a replacement involves a surrender charge paid on an existing policy. In doing so, it attempts to impose requirements that simply are not mandated by law or regulation. Nothing in Section 10509 (or, for that matter, any other California statute, regulation or interpretative guidance) requires insurers to have a procedure to review or screen applications or monitor an agent's replacement recommendations to determine whether a replacement is unnecessary.

Section 10509.8 prohibits an agent or an insurer from recommending that an insured 65 years of age or older purchase an unnecessary replacement annuity. Allianz Life, however, does not "recommend" the purchase or replacement of any products to policyholders. Agents are much better positioned to make such recommendations because they know their clients' financial situations as well as their personal and financial goals. Because agents, rather than Allianz Life, make recommendations regarding replacements, it is the agent, not Allianz Life, that would be in violation of Section 10509.8 if the agent were found to have recommended an unnecessary replacement. Section 10509 consistently differentiates between agents and insurers, including situations in which an insurer's products are sold through agents. For example, section 10509.4 describes the duties of agents, while section 10509.5 addresses duties of insurers and section 10509.6 addresses the duties of insurers who use agents Similarly, by using the phrase "agent **<u>or</u>** insurer," (emphasis added), Section 10509.8 contemplates situations where an agent, but not an insurer, would be in violation of the statute. The prohibition contained in Section 10509.8 does not apply to Allianz Life in the circumstances described in the Report.

<u>IV. Allianz Life's Suitability Program, Which is Designed to Prevent and Detect Unnecessary Replacements and Other Unsuitable Sales, Exceeds the Requirements of California Law</u>

The State of California imposes no regulatory requirements regarding suitability on insurers. Commissioner Garamendi acknowledged as much in his letter of October 6, 2005 to all life insurers: "At this juncture, because SB192 (Scott), a Department-sponsored measure requiring insurer suitability standards, will not be taken up again until next year, insurers are not *explicitly* required to adopt suitability standards. Nevertheless some insurers already have suitability standards and have developed checklists for use by agents selling annuity products. I urge all insurers to follow suit." Allianz Life was one of those insurers that had already implemented suitability standards and suitability checklists to be used by agents selling its annuity products in California, as well as throughout the nation.

Allianz Life's suitability program has evolved over the past two years. We believe that it can fairly be described as an industry leader. We require that a Product Suitability Form be completed by and signed by the prospective policyholder and agent during the sales process for every annuity sale. Our suitability form collects information about prospective policyholders' annual income, net worth, tax status, financial objectives (income now, pass on to beneficiaries, etc.) and expectations as to how they intend to access their money (regular income stream, lump sum, etc.) and when (between one and five years, 10 or more years, etc.). The only exceptions are where purchasers indicate in writing that they are unwilling to provide the requested information, consistent with the Suitability in Annuity Transactions Model Regulation that has been adopted by the National Association of Insurance Commissioners. As our program has evolved, we have revised the Product Suitability Form several times to improve further our assessment process. Part of that evolution included expanding the scope of the suitability program to include all applicants of all ages in all states, including California, regardless of whether the state had any suitability law or regulation. Because this expansion occurred in July of 2005, the Department's current examination of Allianz Life includes only the first thirty days of business sold under the guidelines of our suitability program.

Allianz Life's program includes a comprehensive review of each Product Suitability form. Rather than merely spot-checking a sampling of applications, we instead have developed an automated program that reviews the information collected in each Product Suitability Form we receive. This program contains business rules that will stop the processing of the sale where there is a question regarding the suitability of the sale. These sales are either rejected or referred to a review team. If a sale is found to be inappropriate (for example, if an applicant purchasing a two tier annuity indicates that she intends to access her money in the form of a lump sum payment) we either decline the business or offer modification to the amount or type of product selected.

Additional enhancements to the process, including a revised Product Suitability Form that incorporates replacement information, are currently scheduled to be introduced nationwide next month. These enhancements are not being implemented because of any legal or regulatory mandate, but rather as a result of our efforts to continually improve our business practices.

A. Agent Training and Involvement in Suitability

Allianz Life maintains a program for educating its independent agents on the benefits, limitations and features of its annuity products. This commitment to product education assists our agents in recommending appropriate products to meet their customer's individual needs and supplements the training required by the state of California.

Agents are provided with our Compliance Guide to Successful Business, which reinforces the importance of suitability in the entire sales process. Beginning in January 2005, as required by law, all agents appointed to sell annuities in California completed an eight hour training course about the sale of annuity products. This course provides every agent with training on the subjects of suitability in general and specifically on "unnecessary replacements" as defined by California Senate Bill 620. The content of the training program was approved by the State to meet an agent's continuing education requirements.

We believe that suitability begins with an agent's assessment of the financial needs and objectives of their customer in order for them to successfully match the individual customer needs with the right insurance product. Our independent agents are provided with the information and tools to make such an assessment. Allianz Life provides many layers of educational resources about its products and sales requirements, including the following:

- A toll free number staffed by trained employees dedicated to answering product questions

- Agent notices/bulletins distributed to all licensed agents notifying them of new requirements based on enacted legislation
- Product training seminars scheduled regularly around the country
- An array of company-approved marketing materials carefully developed for compliance with contract language and regulatory requirements

B. Allianz Life Requires Every Contract Applicant to Sign a Statement of Understanding at Time of Application

In addition to providing many opportunities for product training and sales support services, Allianz Life requires product disclosure on every sale through the use of a signed Statement of Understanding disclosure document. The Statements of Understanding explain the specific product purchased, giving applicants an additional opportunity to identify any questions they may have about the product. While this document is generally not required by law or regulation in any state, including California, Allianz Life believes that this additional disclosure opportunity is in the consumer's best interest. The Statement of Understanding coupled with the disclosures in our consumer brochures, the detailed information collected about client needs and financial position, and agents' explanation of how products work further complements Allianz Life's rigorous suitability program.

V. Policy Contract Language

A. The Department Approved the Policy Language At Issue

The Report asserts that several policy contract provisions are unfair and misleading. Each of these provisions was filed with, reviewed by and approved by the Department. In fact, the Department engaged Allianz Life in a dialogue regarding at least two of the provisions prior to approving the contracts for sale in California. Now the Report claims that Allianz Life acted inappropriately by using contract language that the Department itself approved.

B. Allianz Life Should Not Be Penalized for Using Accurate Language Approved by the Department

Each of the policy provisions criticized in the Report is factually correct and accurately describes the product feature. It was clearly reasonable for Allianz Life to believe that these contracts, having been approved by the Department (in some cases after having specifically discussed the language with the Department), complied with the Department's interpretation of California law. There have been no changes to statute or regulation since the approvals to require a change to these approved policy provisions. Allianz Life should not be penalized for doing what the Department authorized it to do – market the approved contracts in the State of California.

VI. Conclusion

Allianz Life is very willing to work with the Department on issues that are of concern to the Department. We believe that it is inappropriate, however, for the Department to retroactively hold the Company to standards that are unclear and unworkable, or that are neither grounded in a duly enacted statute or regulation nor consistent with existing regulation, past practice or precedent. Further, as a matter of public policy seniors should not be denied access to products that offer them a means to accomplish legitimate personal and financial objectives.

Sincerely,

Tim Stanga

TS:ch

cc: Joel Laucher
Kara Baysinger